Idaho Economic Forecast

JAMES E. RISCH, Governor
Division of Financial Management

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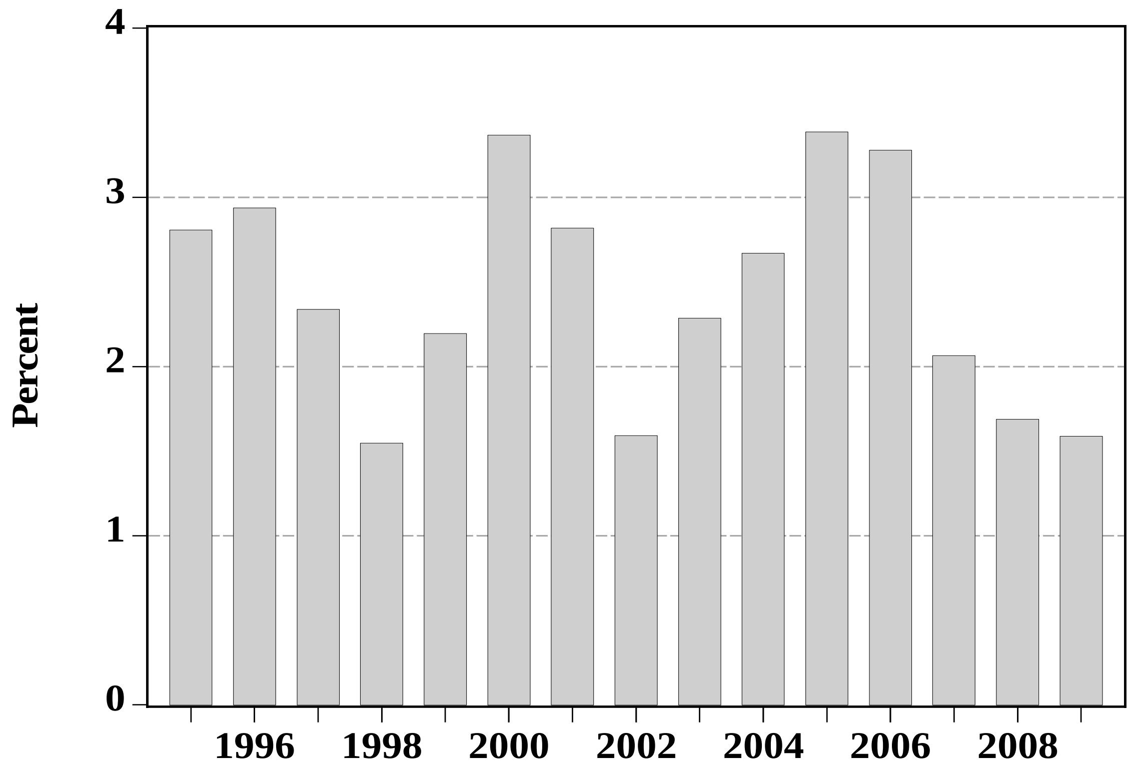
- **Forecast 2006-2009**
- **Job Matching: Evidence from the Beveridge Curve**
- **Alternative Forecasts**

Consumer Price Inflation



Source: Global Insight

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IDAHO ECONOMIC FORECAST 2006 - 2009

State of Idaho
JAMES E. RISCH
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the July 2006 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the March 2006 Global Insight baseline national forecast.

The cover graph shows how inflation has heated up recently. Inflation slowed to a 1.6% pace in 2002, but has sped up in every year since. Consumer inflation, fueled by soaring energy prices, hit a five-year high of 3.4% last year. Inflation is projected to be virtually the same in 2006, as the impacts of persistently high oil prices spread beyond the energy sector and into the price of other goods and services. The current forecast assumes oil prices will recede gradually, and this will help the inflation rate to dip below 2.0% by 2008.

FEATURE

The feature article is titled “Job Matching: Evidence from the Beveridge Curve.” It examines the evidence on long-term shifts in the speed and efficiency of job matching in U.S. labor markets by using the so-called Beveridge curve. The Beveridge curve is an empirical measure of the relationship between the job vacancy rate and the unemployment rate. Rob Valletta and Jaclyn Hodges of the San Francisco Federal Reserve Bank wrote this article. The authors utilize new data from the U.S. Bureau of Labor Statistics to construct a long-term vacancy series and corresponding estimates of the Beveridge curve.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1992 to 2009 and for every quarter from 2003 through 2008. The solution of the Idaho Economic Model (IEM) for this forecast begins with the second quarter of 2006.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The historical employment data used in this forecast was provided by the Idaho Department of Commerce and Labor and was seasonally adjusted by the Idaho Division of Financial Management (DFM). The data consists of final employment estimates through the fourth quarter of 2005 and preliminary data for the first quarter of 2006. These data show Idaho nonfarm employment was 620,397 in the fourth quarter of 2005 and 630,368 in this year’s first quarter. These new estimates show employment was about 3,000 lower than the forecast in the fourth quarter of last year and it was nearly 2,000 higher than the forecast in the first quarter of 2006.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) June 2006 estimates of Idaho quarterly personal income through the first quarter of 2006. These data have been revised back through 2005. The BEA's next round of Idaho personal income estimates will be released in late September 2006. These new estimates will be incorporated into the October 2006 *Idaho Economic Forecast*.

The *Idaho Economic Forecast* is available on the Internet at http://dfm.idaho.gov/Publications/Econ_Publications.html. Readers with any questions should contact Derek Santos at (208) 854-3070 or at dsantos@dfm.idaho.gov.

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